



Director of
Central
Intelligence

Approved For Release 2004/07/08 : CIA-RDP79T00975A031400080001-4

Top Secret

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National Intelligence Daily

Wednesday
9 May 1979

State Dept. review completed

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The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.



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SPECIAL ANALYSES

PANAMA-US: The Royo Visit

President Royo's visit to Washington this week coincides with a break in Panama's policy of public restraint toward what it regards as hostile US Congressional actions on legislation to implement the canal treaties. Royo--still very much the instrument of National Guard commandant Torrijos--will convey a clear message of concern. He wants reassurances of a strong commitment to the treaties from President Carter, which his government can use for both psychological and political support. Torrijos is always capable of an outburst, but for the time being Panama--if armed with strong reassurances--would probably return to a more controlled level of reaction.

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Royo is an able man, but he speaks for no constituency of his own. His public letter of complaint to President Carter on 27 April warning against any changes in the treaties was clearly dictated by Torrijos. The General, not Royo, has made the final decisions on treaty implementation issues that have arisen in discussions with the US. At this point, Royo is not politically capable of independent initiatives.

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Domestic Problems

Royo faces both economic and political problems at home, but neither he nor Torrijos is anywhere near being backed into a corner by domestic pressures on the treaty legislation. Because Panama's gradual political liberalization permits some open public debate, the administration may be more prone now than in the past to speak out--especially on the implementation battle--than to leave the field to its domestic political opponents. This, however, is at least as much by choice as necessity. For four weeks in March and April, for example, the government chose to play down US Congressional actions, and there were no serious domestic political repercussions. [REDACTED]

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The government's chief political foe, three-time President Arias, has tried to take advantage of the implementation issue, but the opposition is still disorganized and has not yet developed sufficient public support to exert any major influence. The government is also still able to deal with student groups despite the fact that students stoned government buildings last week to protest recent official food price hikes. [REDACTED]

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Reaction to the Congressional Debate

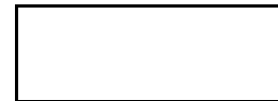
Until late April, Panama's restrained reaction to the treaty implementation debate reflected a clear recognition that its interests would best be served by not being goaded into public debate. Panamanian press reaction was balanced and muted, and the government limited its efforts to augmenting its Washington Embassy with experienced personnel to lobby for Panamanian objectives. Panama's stance was publicly pegged to its faith in President Carter. [REDACTED]

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Torrijos, however, is never far from losing his patience, and he has been increasingly irritated by successive Congressional actions. The leak last month of an unclassified US Embassy economic report that outlined Panama's extremely heavy debt burden caused a major furor.

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[redacted] In a broadcast last night, his top adviser Escobar Bethancourt claimed the leaking of the Embassy report was part of a deliberate anti-Panama effort. Torrijos' design is primarily to put more heat on the US executive and, secondly, to wave the flag at home. [redacted]

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Royo's Objectives

Royo is seeking public assurances that the Carter administration and Senate will fight unwarranted changes in the treaties by the House of Representatives--assurances Panama can use to ward off political embarrassment at home. Royo is also seeking broader reiteration of the US commitment to Panama. Panama and its many creditors view the US stake in the country as so high that Washington, in effect, underwrites all loans to the country. Thus, any sign of flagging US interest--and the Embassy report was interpreted in this vein--sends shudders through Panamanian official and financial circles. [redacted]

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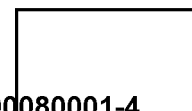
Specifically, Royo will seek assurances that the administration will fight hard to turn around the changes proposed in the Murphy implementation bill, which would widen US Congressional and military control over the canal commission as well as all but preclude Panama's receiving the \$10 million annual contingency payment established in the treaty. Royo will also want to be reassured that the White House will attempt to reverse or ameliorate the recent Congressional moves to slash economic and military aid to Panama. [redacted]

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Outlook

Both Torrijos and Royo wish to avoid jeopardizing the implementation process and generally recognize that any aggressive public actions by Panama would complicate

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the US. Torrijos' adviser Escobar's speech last night, for instance, avoided bellicose threats and expressed the belief that the Senate would not permit violations of the original treaties. Within the Panamanian hierarchy, majority opinion--and Torrijos most of the time--favors a watchful but reasonable pose for now. That will not preclude occasional efforts to prod the US when Panama feels its interests are being neglected or to provide a low-level nationalistic distraction for domestic consumption.

Royo's visit does reflect an underlying but very real worry about the Carter administration's ability to avoid unacceptable dilution of what Panamanians regard as their treaty victory. Torrijos is occasionally deeply frustrated at being forced into an unaccustomed "do-nothing" posture, in part by his genuine admiration for President Carter. As long as Torrijos remains in power, therefore, there is an outside chance that sudden irritation will provoke him into a hasty and inappropriate public response.

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

France-Iraq

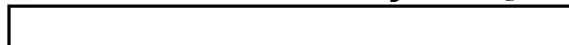
A Western news service quotes French officials as having said yesterday in Paris that Iraq will soon sign a \$1.5-billion deal to purchase 100 Mirage F-1 fighter-bombers and other sophisticated arms from France in exchange for oil. Final negotiations were held during Iraqi Defense Minister Talfah's recent visit to Paris, and the head of the French Defense Ministry's division for international arms sales reportedly will go to Baghdad to sign the contract.



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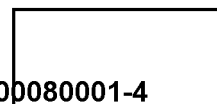
EC-Turkey

According to a Western wire service report, a spokesman for the Foreign Ministers of the EC Nine after their meeting in Brussels yesterday announced their agreement to a series of measures aimed at helping bail Turkey out of its economic problems. They reportedly will propose to Ankara a new five-year financial protocol described only as larger than the current one, which is said to provide \$410 million; around \$100 million in nonrepayable "exceptional" assistance; and a five-year freeze on Turkish tariff-cutting obligations to EC member-states.



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West Germany - UK

The US Embassy in Bonn reports that Chancellor Schmidt, Foreign Minister Genscher, and Finance Minister Matthoefer will go to London tomorrow for talks with Prime Minister Thatcher and her cabinet. Both British and West German sources of the Embassy have said that the consultations will be more than a get-acquainted effort. The West Germans hope to leave London with some idea of the broad outlines of Tory thinking on EC, security, and international economic topics. [REDACTED]

UK-Rhodesia

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The US Embassy in London has reported that the appointment of Lord Carrington as Foreign Secretary met with an almost audible sigh of relief from the local Africanist establishment, since he is well-versed in the complexities of southern African issues and sympathetic to nationalist aspirations. The Embassy expects Lord Carrington cautiously to pursue a new policy line toward Rhodesia by encouraging Bishop Muzorewa to expand the constitutional basis of the government and by holding out the prospect of eventual recognition and the lifting of sanctions. The Tories, the Embassy added, will be watching closely the development of US policy, particularly the President's determination on the fairness of the Rhodesian election and the prospect of Congressional action on the sanctions issue. [REDACTED]

Italy

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The government's interministerial security committee will convene today, the first anniversary of Aldo Moro's death, in special session to consider antiterrorist measures. The US Embassy in Rome reports that Prime Minister Andreotti is likely to announce some decisions enhancing the position--or at least the image--of the government in its fight against terrorism. Two proposals under discussion are the use of the military to strengthen security during the current election campaign and the allotment of over \$260 million to modernize the police forces. [REDACTED]

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Peru-Argentina-Chile

Peru announced this week that President Morales Bermudez will make his often deferred visit to Argentina the middle of next month, thereby returning President Videla's trip to Lima of 1977. The US Embassy in Lima notes that Morales Bermudez, until early this year, had been under some pressure to pursue a policy of detente with Chile that would have implied a need to meet separately with Chilean President Pinochet if a trip to Argentina were made. The Embassy comments that Peruvian policy has now changed to a clearly pro-Argentine tilt, with both countries sharing a military concern regarding Chile. 


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Australia-Indonesia

Australian Prime Minister Fraser and Indonesian President Suharto, who have not met since 1977, will confer on Bali this weekend. Australian Embassy officers in Jakarta said Fraser is seeking a general discussion of the regional situation, including Indochina, China, the refugee problem, and international economic affairs related to the current meeting of the UN Conference on Trade and Development in Manila--which Fraser, but not Suharto, is attending. 

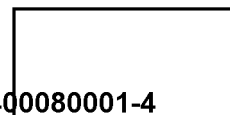
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France

The Communist Party's congress opens today. The five-day meeting apparently will be dominated by the issue of whether to continue the political alliance with France's Socialists. 

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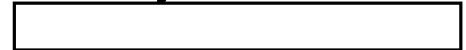
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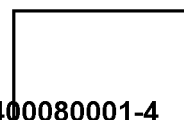
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Afghanistan

The US Embassy in Kabul reported yesterday that the Indian and Pakistani consuls in Jalalabad, the capital of Nangarhar Province across the Khyber Pass from Pakistan, have described the province's security situation as going from bad to worse, with daily antigovernment violence. The consuls--as of last week--thought there was a shortage of Afghan troops in the province, and noted that untrained civilians were assuming some security functions. The Embassy believes the Afghan Government would strain every resource to keep the road from Kabul through the province to Pakistan open for security, prestige, and economic reasons.



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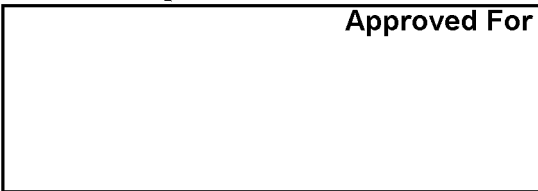


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